

Message Text

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SUBJ: BANKS' PORTFOLIO INVESTMENT REQUIREMENTS MODIFIED

PASS TREASURY AND FRB

REF: ROME 2419 DATED FEBRUARY 19, 1975

1. MINISTRY OF TREASURY DECREE DATED JULY 6 PROVIDES FOR REDUCTION DURING SECOND HALF OF 1975 IN BANKS' PORTFOLIO INVESTMENT REQUIREMENT FROM 40 PERCENT (OF INCREASE IN DEPOSITS) TO 30 PERCENT. BANK OF ITALY ESTIMATES THAT DURING FIRST HALF OF 1975 UNDER 40 PERCENT PORTFOLIO REQUIREMENT RATIO (SEE REFTEL) BANKS INVESTED ABOUT 3500 BILLION LIRE IN ELIGIBLE SECURITIES. HOWEVER, SINCE SECURITIES MAY BE VALUED AT HIGHER NOMINAL, RATHER THAN MARKET VALUE, THESE INVESTMENTS ACTUALLY REPRESENTED ONLY ABOUT 33 PER CENT OF INCREASE IN DEPOSITS. (BANK OF ITALY ESTIMATES THAT UNDER NEW 30 PERCENT REQUIREMENT, RATIO OF NEW BANK DEPOSITS TO BE INVESTED WILL DECLINE TO 25 PERCENT, BASED ON NOMINAL VALUE OF SECURITIES.) OF FIRST HALF TOTAL, 1,900 BILLION LIRE WERE ALLOCATED TO BONDS ISSUED BY SPECIAL CREDIT INSTITUTES WHICH GRANT INDUSTRIAL CREDIT, AND 900 BILLION LIRE TO MORTGAGE BONDS.

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2. DURING SECOND HALF OF 1975, UNDER NEW REQUIREMENT BANKS MUST INVEST AT LEAST 10 PERCENT OF INCREASE IN DEPOSITS

IN MORTGAGE BONDS AND IN BONDS ISSUED TO FINANCE AGRICULTURAL IMPROVEMENTS, BOTH OF WHICH YIELD MINIMUM COUPON RATE OF 7 PERCENT. BANKS MAY ALSO INVEST NO MORE THAN 3 PERCENT OF NEW DEPOSITS IN HOSPITAL DEBT CONSOLIDATION ISSUES. REMAINDER OF NEW DEPOSITS MUST BE INVESTED AS FOLLOWS: IN BONDS ISSUED BY SPECIAL CREDIT INSTITUTES WHICH GRANT INDUSTRIAL CREDIT (AT LEAST 8 PERCENT COUPON RATE), IN GOVERNMENT BONDS TO FINANCE PUBLIC WORKS AND PUBLIC UTILITIES (AT LEAST 7 PERCENT COUPON RATE), IN BONDS OF AUTONOMOUS STATE AGENCIES, IN CCOP BONDS (WHICH ARE ISSUED FOR ACCOUNT OF TREASURY) AND IN OTHER SECURITIES AS DETERMINED BY BANK OF ITALY, ALL OF WHICH WILL YIELD COUPON RATE OF AT LEAST 8 PERCENT.

3. MONETARY AUTHORITIES ESTIMATE THAT PORTFOLIO INVESTMENT MEASURE IN 1975 WILL RESULT IN BANKS' FINANCING 1,700 BILLION LIRE IN MORTGAGE BONDS AND 400 BILLION LIRE IN AGRICULTURAL IMPROVEMENT BONDS. BANKS ARE ALSO EXPECTED TO FINANCE 5,500 BILLION LIRE IN 1975 IN INDUSTRIAL CREDITS AND IN PUBLIC WORKS (COMPARED TO 4,000 BILLION LIRE IN 1974).

4. /COMMENT/: NEW MEASURE REDUCING FORCED INVESTMENT BY BANKS IN PART REFLECTS INCREASED WILLINGNESS ON PART OF OTHER INVESTORS TO PURCHASE SUCH FIXED-YIELD SECURITIES. THIS, IN TURN, WILL PERMIT BANKS TO MEET MORE EASILY THEIR NORMAL DEMANDS FOR SHORT-TERM CREDIT TO ASSIST ECONOMIC RECOVERY. VOLPE

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